TABLE OF CASES.

	PAGE
B. B. Chemical Co. v. Ellis, 314 U. S. 495 (1942)	6
General Talking Pictures v. Western Electric Co., 304 U. S. 175 (1938), 305 U. S. 124	6, 9
Hartford-Empire Co. v. United States, 323 U. S. 386 (1945)	6, 7
Mercoid Corp. v. Mid-Continent Invest. Co., 320 U. S. 661 (1944)	6
Morton Salt Co. v. G. S. Suppiger Co., 314 U. S. 488 (1942)	6
Sears, Roebuck & Co. v. Stiffel Co., 376 U. S. 225 (1964)	8
U. S. Gypsum v. National Gypsum Co., 352 U. S. 457 (1957)	6
United States v. Arnold Schwinn & Co., 18 L. ed. 2d 1249	6, 9
United States v. Univis Lens Co., 316 U. S. 241 (1942)	7, 8, 10

IN THE

Supreme Court of the United States

OCTOBER TERM, 1967.

No. 395

MOTOROLA, INC.,

Petitioner,

vs.

ESTHER MARION ARMSTRONG, EXECUTRIX,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

PETITION FOR REHEARING.

Petitioner prays that this Court grant rehearing of its order of October 9, 1967 denying the Petition for Writ of Certiorari, and that a Writ of Certiorari issue to review the judgment of the United States Court of Appeals for the Seventh Circuit in the above-entitled case as prayed for in the Petition filed July 20, 1967 herein.

This Petition for Rehearing is filed under this Court's Rule 58, paragraph 2, and presents substantial grounds

available to Petitioner although not previously presented,[1] grounds as to which a direct conflict of decision between Circuit Courts of Appeals has arisen subsequent to the filing of the Petition for Writ of Certiorari herein. Specifically, such grounds concern the defense of misuse of licensed patents to impose restrictions on the resale by the licensee of licensed items purchased by the licensee from other than the patentee-licensor.

The Court of Appeals in the present case rejected the defense that the license restrictions were a misuse of the licensed patents. Motorola claimed there "that it was unlawful for Armstrong to restrict the classes of consumers to whom manufacturer licensees could sell" (Pet. App. p. 16a).[2]

A decision dated September 15, 1967 of the Fifth Circuit Court of Appeals,[3] almost two months after the filing of the Petition in this matter, is in direct conflict with the decision of the Court of Appeals for the Seventh Circuit on this latter point, thus making it appropriate at this time to ask this Court to consider the issue. That issue may be stated as follows:

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1. Petitioner is not precluded from raising the question now because, by entry of a decree for an accounting here, this Court would, as in *Mercoid Corp.* v. *Mid-Continent Invest. Co.*, 320 U. S. 661, 670, "be placing its imprimatur on a scheme which involves a misuse of the patent privilege and a violation of the anti-trust laws. . . ."

In the original Petition, Petitioner presented only questions concerning Armstrong's licensing scheme wherein patents on a two-element combination were used to control each unpatented separate element of that combination by a separate license with separate royalties paid on each such unpatented element.

2. The decision of the Seventh Circuit Court of Appeals (374 F. 2d 764) will be referred to herein by the Appendix page number from the original Petition as (Pet. App. p. . .).

3. The decision of the Fifth Circuit Court of Appeals referred to herein was published in 155 USPQ 183 (Advance Sheet of October 23, 1967), but the slip opinion is printed in the Appendix herewith and will be referred to as (App. p. . ., *infra*).

Whether a patentee violates the federal antitrust laws so as to be guilty of patent misuse when, in a license which includes the right to have others make for the licensee, the patentee restricts to certain specified uses the resale of the licensed product purchased by the licensee from others.

On September 15, 1967, the United States Court of Appeals for the Fifth Circuit in *Hensley Equipment Company, Inc.* v. *Esco Corporation,* affirmed the District Court for the Northern District of Texas holding the patent in suit valid and infringed. However, that Court of Appeals found that a patent license granted by the plaintiff was a *per se* violation of the Sherman Act, and reversed the district court and dismissed the complaint on the grounds that such violation was a misuse of the patent in suit which barred the plaintiff from enforcing that patent (App. p. 18, *infra*). This Court's attention is respectfully directed to pages 10-23 of the Appendix herewith where the relevant portions of the opinion are set forth, and the conflict is manifested.

The license held in *Hensley* v. *Esco* to constitute a misuse of the Esco patent was one granted to the Caterpillar Tractor Company giving it the right to have manufactured for it (as well as to manufacture itself) and to resell excavating teeth for earth-moving equipment. Excavating teeth were the "licensed product." The agreement restricted the resale by Caterpillar of the licensed product made for it by others (and thus purchased from them) to certain customers (Caterpillar dealers) and for certain specified uses (App. p. 17, footnote 22, *infra*).

In the present case, in each license (Plaintiff's Exhibit 15), Armstrong granted the licensee the right to have manufactured for it (as well as to make itself), and to resell the radio broadcast receivers and television (TV)

receivers made for the licensees by others. In each license Armstrong restricted the customers to whom sales could be made and the uses for which sales could be made. Each license permitted receivers to be sold only for "experimental and non-commercial reception." This phrase was defined in another provision of the license[4] as reception by "experimenters and amateurs only." These restrictions on resales by Armstrong licensees of receivers made for them by others were still further limited by excluding six different types of reception (Footnote 4, items (a) to (f) inclusive) and purposes as well as places of use within the original restricted fields. These six restrictions would prevent resale of a licensed receiver for use in places and for purposes such as in a tavern or restaurant, in an airplane for guidance purposes, on a ship for navigational purposes, or for any business service.

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4. 8. "Experimental and non-commercial broadcast reception" shall mean the reception of programs by any one and the reception, by experimenters and amateurs only, of sound, visual images or graphic matter or any combination thereof (other than programs) transmitted by wireless; provided that such term shall not include:

(a) Reception for profit or compensation of any nature, direct or indirect;

(b) Reception for the purpose of relaying, rebroadcasting or otherwise retransmitting, except reception at one point in a hotel or other building, or in a group of associated structures such as a summer camp, or in a ship, for transmission by wire to other points therein;

(c) Reception for the purpose of point to point communication or for the purpose of rendering a business, commercial or official service;

(d) Reception for the purpose of public performance or exhibition where admission is charged;

(e) Reception by or from any airplane or other conveyance for the primary purpose of aiding, directing or reporting the operation or movements of such conveyance; and

(f) Reception for the purpose of measuring or determining direction or position for navigational or orientational purposes.

(Appendix to Defendant-Appellant's Brief in the Court of Appeals, Vol. VI, pp. 3631-32.)

The Seventh Circuit Court of Appeals *approved* the license restriction provisions, rejected Motorola's misuse defense, and enforced the three licensed patents in suit by affirming the judgment which requires an accounting to determine damages for patent infringement.

To the contrary, the Fifth Circuit Court of Appeals *disapproved* the provision in the Esco license applying restrictions on resales by the licensee and held that they were a *per se* violation of the Sherman Anti-Trust Act rendering the licensed patent unenforceable, although infringed.

This *direct conflict* between the two Courts of Appeals emphasizes the conflict which Petitioner asserted in its Petition for Writ of Certiorari between the Seventh Circuit and this Court, inasmuch as the Fifth Circuit relied upon decisions of this Court which Motorola had also relied upon, and which the Seventh Circuit either rejected or did not mention in its decision. For the convenience of this Court, the conflicts are detailed as follows:

Fifth Circuit (*Hensley* v. *Esco*)	Seventh Circuit (*Armstrong* v. *Motorola*)
1. Court affirmed trial court on patent infringement (App. p. 24, *infra*).	1. Court affirmed trial court on patent infringement (Pet. App. A, p. 11a).
2. Court disapproved a license restricting the uses for which the licensed product made for the licensee by another could be resold by licensee, and held misuse (App. p. 24, *infra*). Court held the restriction a *per se* violation of the antitrust laws (App. p. 18, *infra*).	2. Court approved a license restricting the uses for which the licensed product made for the licensee by another could be resold by licensee, and held no misuse (Pet. App. A, pp. 16a, 7a).
3. Court held that the license restriction was an attempt to exploit a patented invention beyond the scope of the patent monopoly, that this was	3. Court *did not* refer to the "unclean hands" doctrine, and *did not* even refer to any of the decisions of this Court relied upon by the Fifth Cir-

FIFTH CIRCUIT (*Hensley* v. *Esco*)	SEVENTH CIRCUIT (*Armstrong* v. *Motorola*)
misuse of the patent, and that the equitable doctrine of "unclean hands" applied (App. pp. 10-13, *infra*), citing *U. S. Gypsum* v. *National Gypsum Co.*, 352 U. S. 457, 465 (1957); *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488 (1942); *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495 (1942); *Mercoid Corp.* v. *Mid-Continent Invest. Co.*, 320 U. S. 661, 665 (1944).	cuit and noted in parallel item 3 in this outline.
4. Defendant Hensley was a nonlicensee, and was held to be an infringer of the licensed patent in suit (App. pp. 9, 10, *infra*).	4. Defendant Motorola was a nonlicensee, and was held to be an infringer of the three licensed patents in suit.
5. Court stated that some evidence that Esco did not know whether license restrictions being followed, and no evidence of Esco taking action to enforce the restrictions (App. p. 18, *infra*).	5. No reference in decision as to whether Armstrong did or did not police and enforce restrictions in license.
6. Court held (App. p. 13, *infra*): "Where a contract clause forms the basis for a misuse defense, a mere showing that the clause is not enforced has been held insufficient to dissipate the misuse or prevent a successful assertion of the defense."	6. Court rejected Motorola's misuse defense, and held that the Armstrong licenses were good under *General Talking Pictures* v. *Western Electric Co.*, 304 U. S. 175, 305 U. S. 124 (Pet. App. p. 16a).
7. Court stated (App. p. 19, *infra*): "As we understand the interplay of *Schwinn* and *Hartford-Empire*, and the underlying patent policy, there is no inquiry into purity of heart vs. bad motive, or market impact, or matters of what may seem to be essential fairness — a *per se* violation of the Sherman Act	7. Court stated (Pet. App. p. 16a): "Motorola has stated no authority for the proposition that unlawful license restrictions protect a nonlicensee (such as Motorola) from infringement liability."

Fifth Circuit (*Hensley* v. *Esco*)	Seventh Circuit (*Armstrong* v. *Motorola*)
is deemed such a monopolistic action that the patentee is barred from enforcing the limited and special monopoly given him by the patent laws."	
8. In determining that the patent monopoly is "exhausted" by the first sale, and the patent law does not protect attempts by the patentee to control the use of the licensed product after that sale, the Court of Appeals cited *United States* v. *Univis Lens Co.*, 316 U. S. 241 (App. p. 17, *infra*).	8. The Court below in the present case stated (Pet. App. p. 17a): "The principal authority advanced by Motorola is *United States* v. *Univis Lens Co.*, 316 U. S. 241, but that was a Sherman Act case in which the patentee had been using his patent to achieve resale price maintenance and therefore the case is not in point."
9. Reversing the trial court on misuse, the Court of Appeals held (App. p. 18, *infra*): "Under *Hartford-Empire* [323 U. S. 386], this *per se* violation of the anti-trust laws bars Esco from enforcing its patent in this case."	9. The Court below rejected anti-trust decisions, affirmed the trial court on misuse, and also affirmed the trial court as to infringement and damages (Pet. App. pp. 15a, 16a, 17a, 7a-11a).

The Fifth Circuit's *reliance* upon *United States* v. *Univis Lens Co.* (1942), 316 U. S. 241, as distinguished from the Seventh Circuit's refusal to recognize the applicability of that decision, emphasizes the *direct conflict* of the Seventh Circuit with the decisions of this Court. Although there was price fixing involved in the *Univis Lens* case, Mr. Chief Justice Stone made it very clear that the controlling principle was not price fixing but the exhaustion of the patent monopoly upon the sale of the licensed product, for he stated at page 250:

> "His [the patentee's] monopoly remains so long as he retains the ownership of the patented article. But sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article."

And, at page 252 Mr. Chief Justice Stone further stated:

> "Accordingly neither the Lens Company nor the Corporation, by virtue of the patents, could after the sale of the lens blank exercise any further control over the article sold."

In other words, where the Fifth Circuit in the *Esco* case recognized the applicability of *United States* v. *Univis Lens, supra,* the Seventh Circuit brushed the decision aside as involving resale price maintenance. There was no resale price maintenance in the *Esco* case.

In the more recent decision in *Sears, Roebuck & Co.* v. *Stiffel Co.* (1964), 376 U. S. 225, this Court reversed the Court of Appeals for the Seventh Circuit and held at page 230 that:

> ". . . the patentee's control over the product when it leaves his hands is sharply limited, see *United States* v. *Univis Lens Co.,* 316 U. S. 241, 250-252, 86 L. ed. 1408, 1418, 1419, 62 S. Ct. 1088 (1942), and the patent monopoly may not be used in disregard of the antitrust laws, see *International Business Machines Corp.* v. *United States,* 298 U. S. 131, 80 L. ed. 1085, 56 S. Ct. 701 (1936); *United Shoe Machinery Corp.* v. *United States,* 258 U. S. 451, 463-464, 66 L. ed. 708, 719, 720, 42 S. Ct. 363 (1922)."

The continuing vitality of the *Univis Lens Co.* decision is forcefully illustrated by the reliance on that decision in the *Sears, Roebuck & Co.* opinion. The failure of the Seventh Circuit to follow *Univis Lens Co.* in the *Sears, Roebuck* litigation has its counterpart in the present case. There was no *resale price maintenance* in the *Sears, Roebuck* case.

Thus, with the *Esco* case decision of September 15, 1967 there is a clear and complete conflict between these Circuit Courts of Appeals in two jurisdictions which have extensive

patent litigation.[5] The conflict involves the very important question as to whether or not a patentee-licensor is guilty of patent misuse when he includes conditions in a patent license restricting to specified uses (and consequently to persons who are such users) the sale of the licensed product when made for the licensee by another. The Fifth Circuit held that when the manufacturer sells to the licensee, the patent monopoly of the patentee-licensor is exhausted. The Seventh Circuit held the contrary and approved the same specified use restrictions.

The licensee in the *Esco* case chose to buy the licensed product from the patentee, who was also a manufacturer, instead of from another. The Fifth Circuit opinion did not attribute any legal significance to this choice by the licensee. Nor, should it have done so.

If the rule that the first sale exhausts the patent monopoly were subject to an exception when the sale is made to a licensee with a right to have made for him, the door would be opened for patentees, in addition to continuing to impose use restrictions at the manufacturer-licensee level (where they are now sanctioned by *General Talking Pictures Corporation* v. *Western Electric Company, Inc.*, 304 U. S. 175 (1938), 305 U. S. 124), to impose them also at the distributor-licensee level. The patentee would simply license distributors to have the licensed product made for them and could then impose his use restrictions on their resales. This extension of the dubious principle of *General Talking Pictures* to another level of the distribution system

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5. There is no evidence that any of Armstrong's licensees exercised their right to have others manufacture for them. But this is immaterial. The restriction here limited the uses and persons to whom the licensees could sell (only those who would not use the licensed product for a particular purpose). The mere existence of such a restriction is enough, *United States* v. *Arnold Schwinn & Co.*, 18 L. ed. 2d 1249, 1260 (see quote from *Schwinn* at p. 17 of App., *infra*).

is plainly contrary to the public interest and the policy of our antitrust laws.

The legal principle stated by this Court in *United States* v. *Univis Lens, supra,* should apply to the first vending of the patented article regardless of who the seller might be. This Court said in that decision, at pp. 251-252 of 316 U. S.:

> "In construing and applying the patent law so as to give effect to the public policy which limits the granted monopoly to the terms of the statutory grant, *Morton Salt Co.* v. *Suppiger Co.,* 314 U. S. 488, the particular form or method by which the monopoly is sought to be extended is immaterial. *The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which the patent confers.*" (Emphasis supplied.)

If it is *unlawful* for a patentee to control his licensee's resale of the licensed product when that product is purchased from the patentee (as it clearly is unlawful under *Univis Lens*), why should the same injury to the public become *lawful* when the licensee purchases from a third party-manufacturer instead of from the patentee?

The issue presented by Petitioner is one not yet decided by this Court that concerns the limits of the privilege with which a patent owner is entrusted by the grant of a patent and which he passes to another for a valuable consideration and personal benefit to himself. Is the right to license the resale of a product made for the licensee by another for specified uses only an aspect of the privilege inherent in the grant of a patent? This is the issue before this Court, emphasized by direct conflicts between Courts of Appeals, and with the decisions of this Court.

Such issue can be clarified only by this Court reconsidering its prior denial and the granting of *certiorari* herein.

Respectfully submitted,

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October, 1967.

CERTIFICATE OF COUNSEL.

I hereby certify that the foregoing Petition for Rehearing is presented in good faith and not for purposes of delay, and is restricted to grounds specified in Rule 58 of the rules of this Court.

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